

## ① Meaning of Finance

Finance is broad term that describes activities associated with banking leverage or debt, credit, capital market, Money and Investment.

Finance also encompasses the oversight, creation and study of money, banking, credit, investments, assets and liabilities that make up financial system.

## Objective of Financial

① To ensure regular and adequate supply of funds to the concern.

② Investment Decision.

③ Financing decision.

④ Dividend decision.

⑤ Liquidity decision.

## ⑥ Pay back period

Pay back period in capital budgeting refers to the time required to recoup the funds expended in an investment or to reach the break-even point.

Investors and money manager can use the pay back period to make quick judgement about their investments.

## Net Present Value (NPV)

NPV is used in capital budgeting to analyze the profitability of a project or investment.

It can be calculated by taking the difference b/w the present value of cash inflows and present value of cash outflows over a period of time.

### Formula for NPV

$$NPV = \frac{\text{Cash flows}}{(1+r)^i}$$

$i$  - initial Investment

Cash flows = Cash flows in the time period.

$r$  = Discount rate

$i$  = time period.